



Accounting Discussions IASB and CalPERS

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Administration, Chair of the Investment
Committee



Agenda

- Convergence - US GAAP and IFRS: Memorandum of Understanding
- Challenges, from an investor perspective, of IFRS adoption in the US
- Impact and challenges of principles-based standards
- Priority projects from an investor perspective
- Response to the credit crisis
- Dialogue with CalPERS & other institutional investors
- Overview of CalPERS

IFRS CalPERS' Perspective



- Development of a single set of high-quality, globally accepted accounting standards
- Enhance comparability and needed transparency
- Facilitate cross-border capital accessibility and formation
- Thorough consideration of timing and analysis for vetting costs and benefits of any change from the perspective of the customers of financial reports

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IFRS – Core to Conversion



- Ensure adequate disclosure for the protection of investors
- Corporate value is increased through
 - transparency
 - consistent high quality financial reporting
 - improved confidence - critical to providers of capital
 - integrity of financial reporting and
 - in turn may provide companies a competitive advantage in attracting capital

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Transparency Key to Integrity



- Central to informed market decisions and efficient allocation of capital
 - Ability to get information needed to make fully informed investment decisions
 - Critical to gaining investors' trust in markets
 - Financial reporting should instill investor confidence
 - Quality, accuracy, and relevance of financial reporting

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IFRS - Address Issues



- **Independence from conflicts is critical**
- International Accounting Standards Board (IASB)
- Financial Accounting Standards Board (FASB)
- Both key players to the development of a single set of high quality, globally accepted accounting standards.

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Issue: IASB Source of Funding



- Question current source of funding - companies and accounting firms.
- IASC Foundation proposed a broad-based open-ended funding - contributions country-specific based on a proportionate basis - GDP
- Additional disclosure of funding mechanisms – ensuring free of perceived conflicts

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Issue: Consistency and Reconciliation



- Facilitate global consistency
- Reconciliation to one global standard
- Remove jurisdiction based carve-outs

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Issue: Education and Training



- Significant training
- Ensure investors, accountants, auditors, students and all users of financial reporting are fully trained and understand IFRS
- Major challenge - significant progress needs to be achieved to establish a sound foundation for successful acceptance

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Issue: Resources and Systems



- Sufficient resources and incentives
- Address how training will be provided
- Hiring of additional people competent in IFRS
- Training of existing people
- Modifying companies' systems
- Funding of the major changes required in accounting education

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Issue: Auditing



- Vital role in the integrity of financial reporting
- Role of auditors is to provide investors with confidence and in the efficiency of capital markets
- Promote expanding the pool of auditors
- Need to be as well versed

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Issue: Oversight of Auditors



- Public Company Accounting Oversight Board's (PCAOB) Role
- International Auditing and Assurance Standards Board (IAASB) Role

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Issue: Enforcement Infrastructure



- Is current enforcement structure adequate to ensure compliance with international standards?

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Issue: Single law enforcement



- Responsible for enforcement of international accounting standards.
- Issue must be addressed before one international financial reporting standard can be successful.

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Issue: Regulation



- Joint regulatory bodies, such as the International Organization of Securities Commissions (IOSCO)
- Developing an information sharing infrastructure
- Improve securities regulators' ability to identify and address inconsistent and inaccurate application of IFRS

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Principles Based



- Interpretation
- Guidance
- Judgment
- Enforcement
- Penalties

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Priority Projects Investor Perspective



- Integrity of financial Reporting
- Transparency
- Investor Representation on Standard Setting Boards
- Mark to Market - Fair Value
- Derivatives – Off Balance Sheet
- Auditing Profession – Audit Quality
- Advisory Committee on the Auditing Profession

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Credit Crisis Issue: Oversight



- Work with other institutional investors - collective voice is heard by policymakers and regulators.
- Ensure the U.S. Securities and Exchange Commission, the one federal agency designed to be an advocate for the investor, must remain strong and assure investors' place at the table.

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Effective Dialogue



- Council of Institutional Investors (CII)
- International Corporate Governance Network (ICGN)
- Asian Corporate Governance Association (ACGA)

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Overview of CalPERS



- About CalPERS
- Investments
- Corporate Governance at CalPERS

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CalPERS Mission



Advance the financial and health security for members in the system.

- Defined Benefit Pension Plan
- Provider of Health Benefits
- > 1.5 Million Members & Retirees
- \$200 Billion Assets – Nation's Largest Public Pension Plan

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CalPERS Objectives



Enterprise: "Advance the financial and health security for all who participate in the System."

Investment Office: "Achieve sustainable long-term, risk adjusted returns."

Corporate Governance: "Advocate fully accountable corporate governance structures to produce, over the long-term, the best returns to shareowners."

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Investment Office Global Reach



- Fixed Income 20%
- Real Estate 10%
- Private Equity 10%
- Inflation Linked Assets 5%
- Public Equity: Corporate Governance 55%

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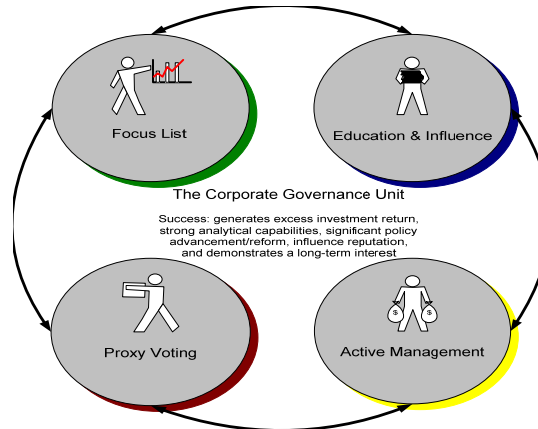
Corporate Governance *Why Do We Do Governance?*



- Leads to better investment performance
- Protects our investments through corporate reforms
- Challenges companies and the status quo through four core programs
- Supports Global Principles of Accountable Corporate Governance

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Corporate Governance *Four Core Programs*



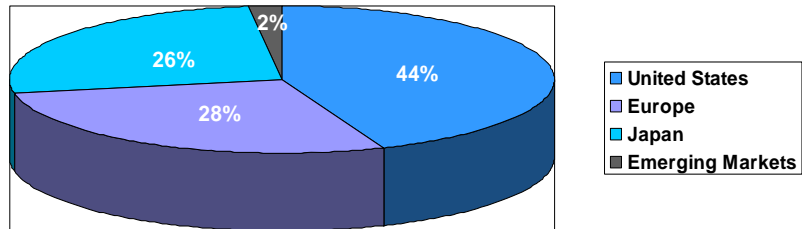
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Corporate Governance Investment Program (CGIP)

- Produce positive alpha
- Increase capital commitment to the program
- Identify new external active managers and new co-investment opportunities
- Enhance Corporate Governance Investment Policy

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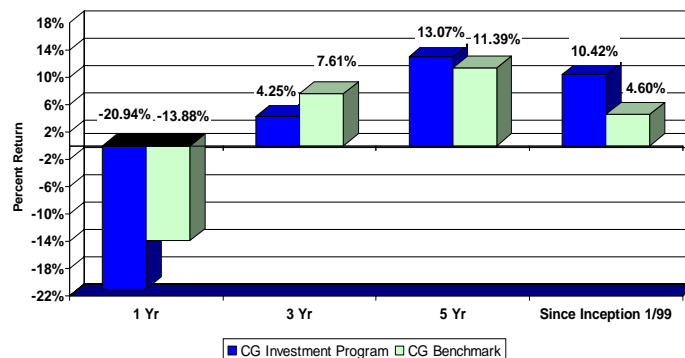
CGIP: Globally Diversified



Figures reflect invested capital as of June 30, 2008.

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CGIP: Long-Term Outperformance



State Street Methodology is CFA Institute compliant.
All figures are net of all fees for periods ending June 30, 2008.

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CalPERS Corporate Governance Proxy Voting Program: Overview

- Execution of proxy voting responsibilities for director elections, management proposals, and shareowner proposals.
- Staff votes 7,000+ global proxies each year consistent with CalPERS' Global Principles of Accountable Corporate Governance.
- Public vote disclosure for CalPERS' largest 300 domestic portfolio holdings in advance of annual meetings.
- Development and implementation of proxy voting technology platform for vote execution, compliance, and reporting.

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Proxy Voting Program

CalPERS Supports:

- Majority Voting for Directors
- Advisory Vote on Executive Compensation
- Elimination of Classified Boards and Takeover Defenses
- Proxy Access
- Environmental Disclosure
- Annual Auditor Ratification

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Proxy Voting: Shareowner Proposal Success

Company	Shareowner Proposal Subject	Shareowner Support
Sara Lee	Shareowner Ability to Amend the Bylaws	79%
Eli Lilly	Shareowner Ability to Amend the Bylaws	49%
Hilb Rogal & Hobbs	Board Declassification	79%
Standard Pacific	Board Declassification	72%
Interpublic Group	Executive Compensation Advisory Vote	33%
Tech Data	Executive Compensation Advisory Vote	61%
Dollar Tree	Board Declassification	82%

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CalPERS Corporate Governance Focus List Program: Overview

- 2008: 21st anniversary for the CalPERS Focus List.
- Annual Selection Methodology that leads to Public Focus List each spring.
- Screening, engagement, shareowner activism is supported by CalPERS' "permanent" ownership.
- Adds value to CalPERS domestic index holdings with the objective to improving company economic and governance practice performance through direct engagement.

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CalPERS Corporate Governance Focus List Program: The “CalPERS Effect”

- A 2008 Wilshire study examined the performance of CalPERS’ Focus List finding:
 - For the 5 years prior to CalPERS engagement, the average Focus List company produced returns that averaged 82.2% below their respective benchmark on a cumulative basis.
 - For the 5 years after CalPERS engagement, the average Focus List company produced excess returns of 15.7% above their respective benchmark.

Source: “The ‘CalPERS Effect’ on Targeted Company Share Prices” by Wilshire Associate Incorporated; July 31, 2008

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2008 Focus List Governance Successes

Governance Issue	Number of Companies
Remove Classified Board Structure	9
Implement Majority Vote for Directors	9
Remove Supermajority Voting Requirements	9
Improve Board Accountability	6
Implement Clawback Policy	7
Seek Annual Ratification of the Auditor	2

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CalPERS Corporate Governance

Education & Influence Program: Strategic Macro Issues

- Shareowner Proxy Access for Director Nominations
- Broker Discretionary Voting Reform
- Global Accounting Convergence – International Financial Reporting Standards “IFRS”
- U.S. Regulatory Reform
- SOX 404: Integrity of Financial Reporting
- Environmental Disclosure
- Non-binding Shareowner “Advisory Vote” on Executive Compensation
- Corporate Board Diversity

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CalPERS Corporate Governance

Education & Influence Program: Reform Initiatives

- **Executive Compensation:** To improve executive compensation transparency and the alignment of executive compensation with the interests of CalPERS as a long-term shareowner.
- **Environmental Disclosure:** To improve environment data transparency and timely disclosure of risks and opportunities to enable investors to make more informed investment decisions.
- **Majority Vote in Director Elections:** To improve director accountability to shareowners through adoption of majority voting standards in director elections.
- **Corporate Board Diversity:** To identify and seek implementation of a set of corporate board diversity best practices.

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CalPERS Corporate Governance

Education & Influence Program: Integrity of Financial Reporting

- Improve financial disclosure and audit practices through engagement with audit committees and regulators
- Comment to regulators to reform financial reporting in the market

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CalPERS Corporate Governance

Education & Influence Program: Active Leadership Representation

- Council of Institutional Investors
- International Corporate Governance Network
- Asian Corporate Governance Association
- United Nations Principles for Responsible Investment
- Global Investor Governance Network
- Securities & Exchange Commission
- New York Stock Exchange
- Ceres: Investor Network on Climate Change

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Education & Influence: Fiscal 07/08 Comment Letters

Recipient	Topic/Issue
SEC Chairman Cox	INCR meeting request to discuss climate risk disclosure in regulatory filings
US Senate Banking Comm.	Support for advisory shareowner vote on executive compensation legislation
Tokyo Stock Exchange	Endorsement of ACGA White Paper on needed improvement of corporate governance practices in Japan
PCAOB	Tax services for persons in financial reporting oversight roles
SEC	CalPERS support for proxy access
SEC	U.S. issuers to prepare financial statements in accordance with IFRS
PCAOB	Guidance for auditors of smaller public companies
WaMu, Standard Pacific, and Citigroup	Asset valuation and compensation tied to subprime mortgage meltdown

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Conclusion



- Corporate Governance is a strategic priority for CalPERS
- CalPERS wants to maintain a global leadership position in Corporate Governance
- Active ownership is encouraged
- Corporate Governance has a positive impact on the value of the Total Fund

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Questions?

